

LIQUIDITY-ASSET/LIABILITY MANAGEMENT - PAGE 7

COMMENTS

Comments should clearly support the component rating assigned liquidity, as well as any Examination Conclusions and Comments (ECC) page comments relating to liquidity. The page heading lists various factors which should be considered in determining the component rating. While these factors may be used as a guide, comments should not necessarily address each factor. Conversely, listed factors are not all-inclusive, and all other relevant issues should be considered. Material conclusions and comments pertaining to liquidity should be detailed here and summarized on the ECC page. Supplemental liquidity pages should be included as needed to support core page comments.

To facilitate analysis of liquidity and funds management, a core page which contains liquidity ratios and trends and a supplemental page which calculates the liquidity and dependency ratios have been designed. When mentioning either the liquidity ratio or the dependency ratio on the core page, reference the supplemental page. If the supplemental page is not included in the Report, then the definition should accompany the corresponding ratio.

Focus on the financial aspects of the institution's liquidity position. Although the page heading indicates that policies concerning asset/liability management should be evaluated, discuss those policies on the Administration, Supervision, and Control page (Item #3). There may be instances when the institution's policies and procedures have contributed to liquidity problems. In such instances, comments concerning how those deficient policies and procedures contributed to the unsatisfactory liquidity position may be appropriately addressed here.

OFF-BALANCE SHEET ACTIVITIES

Off-balance sheet activities may have a significant impact on the institution's liquidity position. When necessary, include comments regarding loan commitments, futures, forwards, foreign exchange contracts, and other contingent liabilities.

PARENT HOLDING COMPANY

Where applicable, consider the liquidity position of the parent holding company inasmuch as its subsidiary institutions may be called upon to provide funds to liquidate liabilities of the parent.

SIGNIFICANT GROWTH

Significant asset growth may place increased demands on liquidity needs. Therefore, address the institution's ability to adequately fund significant growth. Management should have a policy to address this growth. Address the adequacy of that policy on the Administration, Supervision, and Control page (Item #3).

References: Liquidity and Funds Management Section of the Manual
 Funding Sources and Other Liabilities Section of the Manual

LIQUIDITY-COMPONENT RATIOS AND TRENDS - PAGE 7

GENERAL

The ratios and growth rates are calculated according to UBPR definitions.

Reminder: The "Percent Change in Core Deposits" is located in the balance sheet schedule of the UBPR in the column for annualized percentage changes.

Do not include narrative comments on this page.

Dates - The schedule allows three time periods to be shown. Generally, the dates used should be consistent with financial dates used in other schedules of the Report (that is, three year-ends or two year-ends and one interim period).

VOLATILE LIABILITY DEPENDENCE VERSUS DEPENDENCY RATIO

Although the volatile liability dependence ratio (per the UBPR) and the dependency ratio (per the supplemental liquidity page) both measure the funding of long-term earning assets with volatile liabilities, the difference in calculation methods between the two ratios (due to the lack of certain information available for the UBPR) can sometimes result in significant differences. The following discrepancies exist between the two ratios:

VOLATILE LIABILITY DEPENDENCE RATIO	DEPENDENCY RATIO
Volatile liabilities include <u>all</u> other borrowings.	Volatile liabilities include other borrowings due in one year. (A prevalent disparity exists in institutions that use long-term FHLB borrowings).
No adjustments to volatile liabilities are included.	Volatile liabilities are adjusted for additional deposits that the examiner deems volatile (for example, \$99M out-of-territory certificates of deposit).
No other examination-related adjustments are included.	Other examination-related adjustments to volatile liabilities or short-term investments may be performed (for example, time deposits \$100M and over which have demonstrated and documented stability may be subtracted from volatile liabilities).

The dependency ratio is normally a better reflection of the institution's funding practices, since this ratio considers adjustments for additional data provided during the examination. In many institutions, the two ratios will be similar when the above adjustments in the dependency ratio are not significant. However, if significant adjustments are made, the two ratios may be substantially different. *Avoid conflicting or confusing information when completing this schedule. To focus solely on the dependency ratio and to avoid confusion, the examiner has the option of deleting the volatile liability dependence ratio (and its definition) from the Liquidity-Component Ratios and Trends page. When this is done, the comments on the Liquidity - Asset/Liability Management page should reference the dependency ratio and the supplemental page on which it is calculated, if applicable.*

LIQUIDITY-COMPONENT RATIOS AND TRENDS - PAGE 7 (continued)

OTHER RATIOS AND GROWTH RATES

Do not feel compelled to limit the review and assessment of liquidity to the ratios and growth rates detailed. Include, as appropriate, other ratios and growth rates that contribute to assessment of the institution's liquidity position. Additional space is provided.

ADDITIONAL SCHEDULES

To present information critical to the analysis of the liquidity position, additional lists, charts, and schedules may be included below given ratios and growth rates (or on a continuation page). Some examples follow:

- A list of large depositors which may include each deposit type, current balances, average balances, and high/low balances
- A list of outstanding commitments or other contingent liabilities that are expected to be funded
- A deposit maturity schedule
- A borrowed money maturity schedule
- A list of established borrowing lines, including the party, type, amount, and secured status
- Historical liquidity and dependency ratios